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TAGS: [ECON](#) [ETRD](#) [EINV](#) [PGOV](#) [PREL](#) [RS](#)
SUBJECT: RUSSIA: AMBASSADOR'S APRIL 27 MEETING WITH DEPUTY
PRIME MINISTER ZHUKOV

REF: A. MOSCOW 1354

[1](#)B. STATE 51895

Classified By: Ambassador William J. Burns, Reasons 1.4 (b/d).

Summary

[1](#)1. (C) In an April 27 meeting with the Ambassador, Deputy Prime Minister Aleksandr Zhukov emphasized the GOR's strong interest in WTO accession, mentioning he hoped to have an opportunity to discuss the issue with USG officials participating in a May 21 conference on corporate governance in New York. He said the GOR is also ready to begin taking steps toward OECD membership. He outlined the transformation of the Stabilization Fund that President Putin had described a day earlier in his national address. Zhukov downplayed the need for a financial markets mega-regulator, provided a bullish outlook on the growth of non-oil, non-gas sectors, and expressed strong hope that senior-level USG officials would participate in the St. Petersburg Economic Forum in June. End Summary.

WTO Accession

[1](#)2. (C) Deputy Prime Minister Aleksandr Zhukov told the Ambassador he had agreed to participate in the U.S.-Russia Roundtable on corporate governance and cross-border investment on May 21 in New York. Zhukov said he hoped the conference, sponsored by the New York Stock Exchange and Russia's Council for Corporate Governance, would provide an opportunity to meet informally with USG officials to discuss issues related to Russia's WTO accession. He said meetings on the margins of the May 21 conference could provide some much-needed perspective as Russia works toward this objective. Like other GOR officials (Reftel A), he acknowledged in general terms the disagreements impeding the conclusion of the multilateral process, but he added that the problems were not "fundamental" and could be resolved "rather quickly." He said WTO membership remained a priority and that the GOR wanted to finalize the process before parliamentary elections in December so that Russia could announce its membership on January 1, 2008.

Upcoming OECD Vote

13. (C) Zhukov described the GOR's position supporting Russia's membership in the OECD. He said Russia deserved positive consideration during the May 15-16 ministerial meeting, and that a vote in Russia's favor would signify support for the accession process to begin. He suggested that, if the OECD approves the launching of talks, the May 21 corporate governance conference would also allow for an informal dialogue with USG officials to begin Russia's OECD accession process.

Too Early for Financial Mega-Regulator

14. (C) Responding to the Ambassador's question about a unified financial markets regulator, which has been the topic of much press speculation, Zhukov said that Russia may need such an institution in the future but that it had more pressing economic changes to pursue. He acknowledged that the debate had resurfaced as a result of disappointment in some circles with the Central Bank. Zhukov praised the Central Bank's reform-minded leadership, emphasizing the benefits that the deposit insurance program had rendered in terms of cleaning up the sector. He said that removing the bank supervision function from the Central Bank would be disruptive with few benefits.

Budget Changes

15. (SBU) Zhukov highlighted some of the changes in budget programs that President Putin had described a day earlier in his national address. One of the most significant changes is

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the transformation of the current Stabilization Fund into the Reserve Fund and the National Well-Being Fund. Zhukov said that as the GOR reduces the budget's dependence on oil and gas revenues, transfers from the Reserve Fund to cover budget shortfalls in the early stages will probably be the same magnitude as budget surpluses in recent years. In 2008, Zhukov said Reserve Fund transfers to the budget would probably equal 6.5 percent of GDP, declining to 3.7 percent of GDP soon thereafter.

16. (SBU) The National Well-Being Fund will consist of two components. The first will support the GOR's pension reform efforts by encouraging investment. Although Zhukov noted the rules were still being finalized, the plan calls for the GOR to match workers' contribution to private sector account, ruble for ruble. The second component will support development objectives. The fund will supply the seed capital for the government's Nanotechnology Corporation, the Russian Development Bank, and the Venture Fund.

17. (SBU) Zhukov observed that the dynamism among the sources of budget revenue have been diversifying away from oil and gas extraction and export taxes. He said that in 1Q07, tax revenue from oil and gas extraction grew only 4 percent, compared to 14 percent for manufacturing. Profit and personal income tax revenues grew more than 12 percent and revenue from import tariffs is expected to double in the next three years. Zhukov noted that the composition of revenue from import tariffs was moving away from retail and consumer goods toward capital goods.

St. Petersburg Economic Forum

18. (C) After providing a brief overview of Russia's recent economic achievements and efforts to improve its image as a destination for foreign direct investment, Zhukov made a strong, special request that senior-level USG officials attend the St. Petersburg Economic Forum in June. He stressed that this year's event would have a higher profile

than in recent years. The Ambassador pledged to revisit the issue with Washington.

Comment

¶9. (C) Zhukov exhibited his characteristic optimism as he talked about economic diversification and Russia's WTO accession timetable. He was especially intent upon emphasizing Russian interest in high-level USG participation in the St. Petersburg Economic Forum. End Comment.
BURNS